Ask SCORE for Business Advice

Green Bay Press Gazette Thur., March 18, 2010

60 Days to Use Funds by Tina Dettman-Bielefeldt

In the past few weeks, this column has discussed the use of retirement funds for business financing. There were two options discussed. One called for taking a loan from an existing 401(k); the other for rolling over the funds into a new 401(k), purchasing stock in the new company, and using the money without making loan payments.

After last week's column, I heard from Craig Siminski, certified financial planner with MetLife in De Pere. Siminiski had yet another option that he has used. One of his clients was employed at an area company, but after leaving the company, was unable to take out a loan because of 401(k) regulations.

Siminski rolled the 401(k) into an IRA, where once a calendar year, you can take money out without being subject to the withholding tax. "Using this technique, the client had 60 days to use the money and return it into the account," Simiski explained. "Once a calendar year, you can do this."

Since the client's business was in buying and selling real estate, the 60 days provided seed money. After the 60 days, Siminski helped him set up a new solo 401(k) where both he and his wife could take out loans of up to 50% of their account value with a maximum of $50,000 each. They now have five years to pay back the loan at an interest rate that was set in accordance with IRA guidelines. The interest is not deductible for income tax purposes.

Record keeping is handled by an outside company and costs his client about $100 a year, a deductible business expense. The interest rates typically match those available at a bank.

"By borrowing from the new 401(k), he avoids ordinary income taxes and the 10% early withdrawal penalty. Before the market collapsed, a lot of people lost a substantial percentage of their 401(k) funds, but because he took out funds before that, he got to use the money and see a better rate of return than he could have gotten in the market," Siminski said.

His client's business has been a success and he has been generating a 20-30% return versus the lower average returns realized in equities.

Siminski is quick to point out that he doesn't usually advise clients to tap retirement accounts. He says it depends on their goals and the strength of the business plan.

He noted, "I sit down and help a business owner make the tough decisions necessary to maximize their cash flow and minimize expense. If it's a business owner, we look at the advantages and disadvantages."

If Siminski felt it was a bad idea, he probably wouldn't work with the client. Considering the magnitude of the decision and risk, he advises talking to your accountant and financial advisor to weigh the risks.

"They have to be able to pay the loan back," Siminski said. "I tell them they need to be so confident that they can visualize the worst case scenario, picture having to tell their spouse the bad news if it doesn't work out, and still decide to go ahead."

If you'd like to learn more, contact the Green Bay Chapter of SCORE. Visit www.greenbayscore.org or call Cindy Gokey at 920-496-8930 for information.

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